

MINUTES OF THE SENATE ASSESSMENT AND TAXATION COMMITTEE

The meeting was called to order by Chairman Barbara Allen at 10:40 A.M. on January 26, 2005 in Room 519-S of the Capitol.

Committee members absent:

Committee staff present: Chris Courtwright, Kansas Legislative Research
Martha Dorsey, Kansas Legislative Research
Gordon Self, Revisor of Statutes Office
Nancy Kirkwood, Secretary

Conferees appearing before the committee: Steve Stotts, Director of Taxation,
Richard Cram, Kansas Department of Revenue (KDOR)
Gary Centlivre, Kansas Department of Revenue (KDOR)
April Holman, Kansas Action for Children

Others attending: See attached list

Introduction of Bills

April Holman, Kansas Action for Children, appeared before the Committee asking for three bill introductions. She stated all three bills are designed for more transparency in the tax system. The three bills would:

- 1) Require the Department of Revenue to publish each year a tax expenditure report listing each of the tax credits, and exemptions, as well as the cost of all credits and exemptions as a group;
- 2) Require the Department of Revenue to do a tax incident analysis every three years that would include a breakdown of where the burden of paying Kansas taxes lies;
- 3) Require information to be released to the public, if a taxpayer falls under the special circumstances where a taxpayer has received \$20m or more in one year in tax incentives.

Senator Lee made a motion to introduce the three pieces of legislation. Senator Jordan seconded the motion and the motion carried.

Chairperson Allen recognized Steve Stotts, Director of Taxation, to give the Committee a presentation on individual income tax structure in Kansas. Mr. Stotts explained to the Committee he would give brief comments, take the Committee through some charts and tables, and give a demonstration of the web file application. Steve introduced Gary Centlivre, of KDOR's electronic filing department, to give the demonstration.

Mr. Stotts stated individual income tax in Kansas conforms to the federal government on the definition of federal adjusted gross income. The other major area of conformity is itemized deductions, which conform to the federal definition of itemized deductions, except for state income taxes. Kansas also piggyback's the federal earned income tax credit, which is 15% of the amount claimed on the federal return, and the child care credit and adoption expense credit, which are equal to 25% of the amount claimed on the federal return (Attachment 1).

The Chair asked the Director of Taxation to provide to the Committee a comparison chart of various tax deduction rates for Kansas, and other states, so the Committee can interpret how Kansas compares to other states..

Mr. Stotts introduced Gary Centlivre, in charge of electronic filing in the Department, to give the Committee a brief demonstration of the web file application, and how it works for those who file their individual income taxes for free through the State Web File system. The web file in partnership with Access Kansas, was implemented last year, and 34,000 Kansans used the system. The Department expects a 20% increase this season.

Overview of the Kansas Sales Tax

Richard Cram, KDOR, gave the Committee an overview of the state sales tax in Kansas. Handouts and brief explanations from KDOR included: Publication 17: the Sales and Use Tax Jurisdiction Code Booklet, which gives the current local sales tax rate, and jurisdiction codes for every local tax and

jurisdiction that has a local sales tax (available from KDOR); Publication 1510: Sales Tax and Compensating Use Tax, which is a primer on sales tax. This document is provided to new businesses that have registered as retailers in Kansas. It is a primer on sales tax laws, and describes the sales tax imposition, what is subject to sales tax, and a brief explanation on sales tax exemptions. It shows how to fill out a return and the use of exemption certificates. An exemption certificate is a document a buyer presents to a retailer when the claim the sales transaction is exempt from tax. The retailer needs to retain this for audit purposes, because the certificate would verify why the retailer did not collect tax on the transaction (available on line from KDOR or the Department will mail a hard copy at request).

Mr. Cram handed out an excerpt from the KDOR's annual report, dealing with sales tax. The first page is a graph showing a total of state sales and use tax receipts for the last five years. Page 34 is a breakdown of state sales tax collected by county. Page 36 is a percentage change for sales tax collection by county. Page 37 is the per capita sales tax by county. Page 38, NAICS (North American Industry Classification System), is a coding system the industry and the federal government developed that identifies a precise numerical code for a particular line of business (i.e. agricultural, aircraft manufacturing, food manufacturing, retail, etc). KDOR provided sales tax collections by the major NAICS classifications. Page 41 is a chart of local sales tax rates and their history, when the rates went into effect, as well as local sales tax receipts by county (Attachment 2). Next, the Department showed tax revenue due to various exemptions, credits, and deductions for income, sales tax, and other excise tax (Attachment 3). The spreadsheet, State Sales Tax Exemptions Summary, lists the fiscal estimate of the value of the foregone revenue equatable to each of the sales tax exemptions (Attachment 4). Another sheet of the annual report on page 20, provides a general breakdown of the various sources of the tax revenue of the State General Fund (SGF). The individual income tax and sales tax are the major sources of SGF revenue. (Attachment 5). (Attachment 6), handout is an analysis of corporate income tax 2000-2002.

Mr. Cram gave a quick briefing on the sales tax laws. Sales tax has been in Kansas since 1937, initially at a rate of 2%, currently, it is 5.3%. It has become a popular revenue-raising tool for the state, and currently 45 other states and the District of Columbia have enacted a sales tax (Attachment 7).

PVD, at the request of Senator Donovan, furnished the Committee with a copy of the 2003 Real and Personal Property Value and Tax summary for Sedgwick County (Attachment 8).

The meeting adjourned at 12:00 p.m.

The next meeting is scheduled for Thursday, January 27, 2005.